

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Dan G. Blair;
Tony L. Hammond; and
Nanci E. Langley

Analytical Principles in Periodic Reporting
(Proposal Two)

Docket No. RM2011-10

ORDER CONCERNING ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL TWO)

(Issued June 20, 2011)

I. INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. 3652.¹ Those rules require the Postal Service to obtain advance approval, in a notice and comment proceeding under 5 U.S.C. 553, whenever it seeks to change the analytical principles that it applies in preparing its periodic reports to the Commission required by section 3652.

¹ Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

On May 10, 2011, the Postal Service filed a petition to initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in its periodic reports to the Commission.² Proposal Two seeks approval of four changes that the Postal Service presented in its FY 2010 Annual Compliance Report (ACR) modifying the cost models that are used to evaluate Negotiated Service Agreements (NSAs) for competitive products. These cost models were included in USPS-FY10-NP27 in that docket.

The Petition indicates that in the FY 2010 Annual Compliance Determination, the Commission preliminarily viewed these four changes as changes to analytical principles which require prior Commission approval before being incorporated in an ACR.³ The Postal Service believes that these changes are necessary for use in future ACRs. Thus, the Postal Service is filing for approval to incorporate the referenced changes, despite its belief that some of the changes could be viewed as corrections to its models not requiring advance Commission approval. Petition at 1.

The Commission approves the changes in the analytical methods as proposed.

II. PROPOSAL TWO—PROPOSED CHANGES TO NSA COST MODELS

The Postal Service's proposal updates cost models for Priority Mail, Parcel Select, and Parcel Return Service that are used for competitive NSAs. *Id.* at 3.

The four changes for which the Postal Service seeks approval are:

1. addition of a cost avoidance for Priority Mail pieces;
2. inclusion of D-Report adjustments;⁴

² Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal Two), May 10, 2011 (Petition).

³ See Docket No. ACR2010, FY 2010 Annual Compliance Determination, March 29, 2011, at 141. In response to CHIR No. 5, question 3, the Postal Service filed library reference USPS-FY10-NP33 that excluded the four changes.

⁴ The D-Report is one of six reports used to develop the Cost and Revenue Analysis (CRA). In the D-Report, the Postal Service provides attributable, product-specific, and volume-variable costs for each product.

3. incorporation of the CRA adjustment for Alaska Air Priority transportation; and
4. changes in the distribution of "Other" costs for Parcel Select and Parcel Return Service.

The Postal Service asserts that including the addition of cost avoidance for Priority Mail pieces better matches the characteristics of the mail volume for the NSAs in question.⁵ It characterizes the inclusion of the D-Report and the Alaska Air adjustments as correcting previous omissions from these models. It notes that the change in the distribution of Other costs for Parcel Select and Parcel Return Service is made necessary by the inclusion of the D-Report adjustment. Petition at 4.

III. COMMENTS

Comments were filed by the Public Representative.⁶ No other interested person submitted comments.

The Public Representative observes that two of the adjustments are straightforward. He concludes that the D-Report and the Alaska Air adjustments are improvements that lead to more accurate costing, but asserts that because the rationale for including them is not fully explained, it is difficult to discern if the changes are merely corrections or changes in analytical principles. *Id.* at 1-2. Additionally, the Public Representative contends that the way in which the Alaska Air Priority transportation adjustment is applied could be improved in the future.⁷

⁵ In nonpublic materials supporting the proposal, the Postal Service provides a more detailed explanation for why the cost avoidance adjustment is appropriate for the given Priority Mail pieces. See USPS-RM2011-10/NP1, "Nonpublic Materials Supporting Proposal Two," May 10, 2011. See *also* Docket No. ACR2010, Response to CHIR No. 5, question 3(b)-(c) (revised), March 8, 2011.

⁶ Comments of the Public Representative in Response to Order No. 727, June 13, 2011.

⁷ The Public Representative suggests that when information regarding each contract is available, it may be reasonable to adjust the transportation costs specific to each contract depending on the contract's use of the Alaska Air transportation network. *Id.* at 2.

Reiterating the Postal Service's filing, the Public Representative notes that the distribution of "Other costs" flows from the D-Report adjustment.

The Public Representative also notes that including a cost avoidance estimate for Priority Mail pieces is a refinement and improvement compared with previous methods. *Id.* However, he observes that the library reference containing the cost avoidance calculations for Priority Mail pieces did not include all sourced workpapers.

Nevertheless, the Public Representative recommends that the Commission approve the changes to the competitive NSA cost models.

IV. COMMISSION ANALYSIS

The Commission approves Proposal Two. The Commission finds that each of the proposed changes to the NSA cost models is reasonable and has a minimal impact on the affected cost models. Incorporating the D-Report, Other costs, and Alaska Air Transportation adjustments improves the NSA cost models. In regards to the cost avoidance adjustment for Priority Mail pieces, based on the nonpublic materials supporting the proposal, the Commission agrees that including the adjustment better captures the characteristics of the volume for Priority Mail pieces. Although sources for some workpapers are missing, as the Public Representative observes, the workpapers are not necessary to determine if the cost avoidance adjustment for Priority Mail pieces is warranted.⁸

⁸ In future petitions to initiate rulemakings, the Postal Service should ensure that workpapers are properly sourced to Commission-available data to allow for a review of the effects of the proposal.

It is ordered:

For purposes of periodic reporting, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal Two in Docket No. RM2011-10.

By the Commission.

Shoshana M. Grove
Secretary